

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name TOWNSHIP OF ALABASTER	County IOSCO
Audit Date 03/31/2004	Opinion Date 05/27/2004	Date Accountant Report Submitted to State: 08/18/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

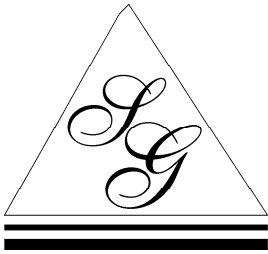
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature 		Digitally signed by Stephenson, Gracik & Co., P.C. DN: cn=Stephenson, Gracik & Co., P.C., c=US Date: 2004.08.12 09:28:29 -0500 Reason: I am approving this document	



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Certified Public Accountants & Consultants

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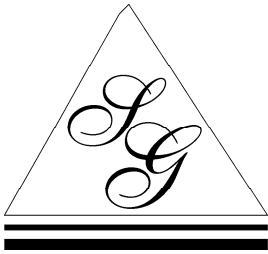
Herman A Bertuleit, CPA

TOWNSHIP OF ALABASTER
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED MARCH 31, 2004

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May 27, 2004

Independent Auditors' Report

Members of the Township Board
Township of Alabaster
Iosco County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Alabaster, Iosco County, Michigan, as of and for the year ended March 31, 2004, as listed in the index. These general purpose financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Township of Alabaster, Iosco County, Michigan, as of March 31, 2004, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2004, on our consideration of the Township of Alabaster's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Stephenson, Gracik & Co., P.C.

TOWNSHIP OF ALABASTER
Iosco County, Michigan
 COMBINED BALANCE SHEET
 ALL FUND TYPES AND ACCOUNT GROUPS
March 31, 2004

	Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund Type	Account Group	Total
	General	Special Revenue	Enterprise	Trust and Agency	General Fixed Assets	(Memorandum Only)
<u>ASSETS</u>						
Cash (Note 2)	\$ 36,721	\$ 516,430	\$ 135,176	\$ 357	\$ 0	\$ 688,684
Certificates of deposit (Note 2)	100,038	60,451	0	0	0	160,489
Cash - escrow (Note 2)	0	0	17,275	0	0	17,275
Receivables:						
Assessments	0	0	386,633	0	0	386,633
Due from other funds (Note 5)	50	0	0	0	0	50
Property, plant and equipment (Notes 1 and 6)	0	0	494,895	0	56,048	550,943
Accumulated depreciation (Notes 1 and 6)	0	0	(35,637)	0	0	(35,637)
Bond issuance costs (Note 1)	0	0	35,820	0	0	35,820
Accumulated amortization (Note 1)	0	0	(6,567)	0	0	(6,567)
Total Assets	\$ <u>136,809</u>	\$ <u>576,881</u>	\$ <u>1,027,595</u>	\$ <u>357</u>	\$ <u>56,048</u>	\$ <u>1,797,690</u>
<u>LIABILITIES AND FUND EQUITY</u>						
<u>Liabilities</u>						
Accounts payable	\$ 1,912	\$ 1,513	\$ 0	\$ 0	\$ 0	\$ 3,425
Due to other funds (Note 5)	0	0	0	50	0	50
Due to other units	0	0	0	307	0	307
Deferred revenue	0	112,882	0	0	0	112,882
Contract payable (Note 8)	0	0	475,000	0	0	475,000
Total liabilities	<u>1,912</u>	<u>114,395</u>	<u>475,000</u>	<u>357</u>	<u>0</u>	<u>591,664</u>
<u>Fund Equity</u>						
Contributed capital, net	0	0	534,611	0	0	534,611
Investment in general fixed assets	0	0	0	0	56,048	56,048
Retained Earnings:						
Unreserved	0	0	17,984	0	0	17,984
Fund Balances:						
Unreserved:						
Undesignated	<u>134,897</u>	<u>462,486</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>597,383</u>
Total fund equity	<u>134,897</u>	<u>462,486</u>	<u>552,595</u>	<u>0</u>	<u>56,048</u>	<u>1,206,026</u>
Total Liabilities and Fund Equity	\$ <u>136,809</u>	\$ <u>576,881</u>	\$ <u>1,027,595</u>	\$ <u>357</u>	\$ <u>56,048</u>	\$ <u>1,797,690</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
 IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended March 31, 2004

	<u>General</u>	<u>Special Revenue</u>	<u>Total (Memorandum Only)</u>
<u>Revenue</u>			
Taxes	\$ 45,439	\$ 146,995	\$ 192,434
Licenses and permits	1,546	0	1,546
State revenue and grants	35,514	12,118	47,632
Other	1,799	404	2,203
Interest earned	768	5,018	5,786
Total revenue	<u>85,066</u>	<u>164,535</u>	<u>249,601</u>
<u>Expenditures</u>			
Current:			
Township board	12,159	0	12,159
Supervisor	9,238	0	9,238
Assessor	9,943	0	9,943
Clerk	10,770	0	10,770
Board of review	107	0	107
Treasurer	11,486	0	11,486
Township hall	4,682	0	4,682
Fire protection	0	41,903	41,903
Highways, streets and bridges	844	89,761	90,605
Street lighting	5,585	0	5,585
Sanitation	0	35,806	35,806
Planning and zoning	11,733	0	11,733
Insurance and bonds	2,948	0	2,948
Employee benefits	2,780	0	2,780
Other	0	1,500	1,500
Capital outlay	0	12,118	12,118
Total expenditures	<u>82,275</u>	<u>181,088</u>	<u>263,363</u>
Excess of revenue over (under) expenditures	2,791	(16,553)	(13,762)
Fund balances - beginning of year	<u>132,106</u>	<u>479,039</u>	<u>611,145</u>
Fund balances - end of year	<u>\$ 134,897</u>	<u>\$ 462,486</u>	<u>\$ 597,383</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended March 31, 2004

	General Fund			Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>									
Taxes	\$ 46,676	\$ 45,439	\$ (1,237)	\$ 148,773	\$ 146,995	\$ (1,778)	\$ 195,449	\$ 192,434	\$ (3,015)
Licenses and permits	1,545	1,546	1	0	0	0	1,545	1,546	1
State revenue and grants	39,603	35,514	(4,089)	250	12,118	11,868	39,853	47,632	7,779
Charges for services	50	0	(50)	0	0	0	50	0	(50)
Other	2,528	1,799	(729)	500	404	(96)	3,028	2,203	(825)
Interest earned	500	768	268	3,055	5,018	1,963	3,555	5,786	2,231
Total revenue	<u>90,902</u>	<u>85,066</u>	<u>(5,836)</u>	<u>152,578</u>	<u>164,535</u>	<u>11,957</u>	<u>243,480</u>	<u>249,601</u>	<u>6,121</u>
<u>Expenditures</u>									
Current:									
Township board	14,098	12,159	1,939	0	0	0	14,098	12,159	1,939
Supervisor	9,879	9,238	641	0	0	0	9,879	9,238	641
Elections	625	0	625	0	0	0	625	0	625
Assessor	10,771	9,943	828	0	0	0	10,771	9,943	828
Clerk	12,080	10,770	1,310	0	0	0	12,080	10,770	1,310
Board of review	1,400	107	1,293	0	0	0	1,400	107	1,293
Treasurer	11,830	11,486	344	0	0	0	11,830	11,486	344
Township hall	7,000	4,682	2,318	0	0	0	7,000	4,682	2,318
Fire protection	0	0	0	42,000	41,903	97	42,000	41,903	97
Highways, streets and bridges	1,600	844	756	154,491	89,761	64,730	156,091	90,605	65,486
Street lighting	6,000	5,585	415	0	0	0	6,000	5,585	415
Sanitation	0	0	0	35,832	35,806	26	35,832	35,806	26
Planning and zoning	19,069	11,733	7,336	0	0	0	19,069	11,733	7,336
Insurance and bonds	3,050	2,948	102	0	0	0	3,050	2,948	102
Employee benefits	3,500	2,780	720	0	0	0	3,500	2,780	720
Other	0	0	0	21,501	1,500	20,001	21,501	1,500	20,001
Capital outlay	0	0	0	250	12,118	(11,868)	250	12,118	(11,868)
Total expenditures	<u>100,902</u>	<u>82,275</u>	<u>18,627</u>	<u>254,074</u>	<u>181,088</u>	<u>72,986</u>	<u>354,976</u>	<u>263,363</u>	<u>91,613</u>
Excess of revenue over (under) expenditures	(10,000)	2,791	12,791	(101,496)	(16,553)	84,943	(111,496)	(13,762)	97,734
Fund balances - beginning of year	<u>132,106</u>	<u>132,106</u>	<u>0</u>	<u>479,039</u>	<u>479,039</u>	<u>0</u>	<u>611,145</u>	<u>611,145</u>	<u>0</u>
Fund balances - end of year	<u>\$ 122,106</u>	<u>\$ 134,897</u>	<u>\$ 12,791</u>	<u>\$ 377,543</u>	<u>\$ 462,486</u>	<u>\$ 84,943</u>	<u>\$ 499,649</u>	<u>\$ 597,383</u>	<u>\$ 97,734</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER

Iosco County, Michigan

COMBINED STATEMENT OF REVENUE, EXPENSES AND CHANGES
IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES - ENTERPRISE FUND
For the Year Ended March 31, 2004

	<u>Water Fund</u>
<u>Operating Revenue</u>	
Charges for services	\$ <u>1,108</u>
<u>Operating Expenses</u>	
Amortization	1,791
Depreciation	9,898
Other	<u>2,512</u>
Total operating expenses	<u>14,201</u>
Operating loss	<u>(13,093)</u>
<u>Non-Operating Revenue (Expenses)</u>	
Interest on special assessments	29,816
Interest on investments	903
Interest expense and paying agent fees	<u>(27,338)</u>
Total non-operating revenue (expenses)	<u>3,381</u>
Net loss	(9,712)
Amortization of contributed capital	11,538
Retained earnings - beginning of year	<u>16,158</u>
Retained earnings - end of year	\$ <u><u>17,984</u></u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

COMBINED STATEMENT OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES - ENTERPRISE FUND
For the Year Ended March 31, 2004

	<u>Water Fund</u>
<u>Cash Flows From Operating Activities</u>	
Cash received from customers	\$ 1,108
Cash paid to suppliers	<u>(2,512)</u>
Net cash used by operating activities (Note 11)	<u>(1,404)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>	
Cash received for special assessments	54,256
Interest received on special assessments	29,816
Principal paid on contract payable	(25,000)
Interest and fees paid on contract payable	<u>(27,338)</u>
Net cash provided by capital and related financing activities	<u>31,734</u>
<u>Cash Flows From Investing Activities</u>	
Interest received on investments	<u>903</u>
Net increase in cash and cash equivalents	31,233
Cash and cash equivalents at beginning of year (Note 1)	<u>121,218</u>
Cash and cash equivalents at end of year (Note 1)	<u>\$ 152,451</u>

The accompanying notes to financial statements are an integral part of this statement.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Alabaster Township is located in Iosco County and operates under an elected Township Board (five members) and provides services to its 414 residents in many areas including fire protection, street lighting, refuse collection and improvement of local streets.

The financial statements of the Township of Alabaster have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary Funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Township exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Joint Venture

The Huron Shore Regional Utility Authority was established as a joint venture between the City of Tawas City, City of East Tawas, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The Township of Alabaster's contribution for the year ended March 31, 2004 was \$0. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

C. Basis of Presentation

The financial activities of the Township of Alabaster are recorded in separate funds and account groups, categorized and described as follows:

1. Governmental Funds:

General Fund – This fund is used to account for all financial transactions not accounted for in another fund including general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state distributions, grants and other intergovernmental revenue.

Special Revenue Funds – These funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

2. Proprietary Fund:

Enterprise Fund – This fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriated for capital maintenance, public policy, management control or other purposes.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (Continued)

3. Fiduciary Funds:

These funds are used to account for assets held in trust or an agency capacity for others, and consists of the Current Tax Collection Fund and the Payroll Tax Fund.

4. Account Groups:

General Fixed Asset Account Group – This group presents the fixed assets the local unit utilizes in its general operations. It does not include fixed assets recorded in the Proprietary Fund.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Township, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

The accrual basis of accounting is used by the Enterprise Fund. The financial activity of the Agency Fund is limited to collection of amounts which are subsequently returned or paid to third parties and, accordingly, is limited to cash transactions. All governmental funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

1. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

For the current year, the taxable value for properties located within the Township was \$39,797,704. The tax rates were 0.6796 for operations, 1.1823 for fire protection, 1.1823 for refuse collection and 1.27029 for roads.

2. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.
3. Normally, expenditures are not divided between years by the recording of prepaid expenses.

E. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

F. Budgets and Budgetary Accounting

The Township normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township Clerk submits to the Township Board a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, or as amended by the Township Board.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Township Board.

G. Assets, Liabilities and Fund Equity

Interfund receivables and payables - Interfund receivables and payables have not been eliminated in the preparation of the Combined Balance Sheet (EXHIBIT A).

Fixed Assets and Depreciation:

Enterprise Fund - Water fixed assets are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the assets.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Fund Equity (Continued)

General Fixed Assets - General fixed assets are recorded as expenditures at the time of purchase. The assets are then recorded in the fixed asset group of accounts to maintain their identity and related costs. Because original purchase documents were not available for the land and some building costs, the original cost of such assets has been estimated on the basis of such documentary evidence that was available including price levels at the time of acquisition.

Bond Issuance Costs – Bond issuance costs represents costs associated with the issuance of the Alabaster Township Water System Project Bonds, Series 2000. These costs are being amortized.

Contributed Capital - Contributed capital consists of contributions from customers (special assessments) utilized in the construction of fixed assets. Contributed capital is being amortized.

H. Revenue, Expenditures and Expenses

1. Property tax revenue is recognized when it becomes available. Available means when due, or past due and receivable within the current period.
2. Revenue from the sale of Township services and assessments is recorded when billed. All other revenue is recognized when collected in cash.
3. Payrolls and other costs are recognized as incurred.
4. Provision for depreciation is provided with respect to plant and equipment of the Water department. Depreciation is computed by the straight-line method.

I. Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid investments and certificates of deposit with a maturity of three months or less when purchased are considered to be cash equivalents.

NOTE 2 - DEPOSITS AND INVESTMENTS

The captions on the financial statements for the deposit accounts are as follows:

	<u>Deposits</u>
Cash	\$ 688,684
Certificates of deposit	160,489
Cash-escrow	<u>17,275</u>
	866,448
Less: petty cash included in cash	<u>150</u>
	<u>\$ 866,298</u>

TOWNSHIP OF ALABASTER
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits:

Deposits are carried at cost. Deposits of the Township are at various financial institutions in the name of the Township and the cash-escrow account is in Iosco County's name for Alabaster Township. At year-end, the carrying amounts of the Township's deposits were classified as to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 617,275	\$ 617,275
Uninsured - uncollateralized	<u>249,023</u>	<u>249,355</u>
	<u>\$ 866,298</u>	<u>\$ 866,630</u>

Cash Escrow:

Cash escrow represents monies held in Iosco County's name for Alabaster Township. These monies represent bond proceeds for the new water system less water system costs to date. Any excess funds will be applied towards future bond payments.

Investments:

The Township Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Township to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which matures not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Township's deposits and investments are in accordance with statutory authority.

NOTE 3 - UNEMPLOYMENT COMPENSATION

The Township is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Township must reimburse the Employment Agency for all benefits charged against the Township. No liabilities have been incurred as of March 31, 2004.

TOWNSHIP OF ALABASTER
Iosco County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004NOTE 4 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on an activity basis. The approved budgets of the Township for these budgetary funds were adopted to the activity level.

During the year ended March 31, 2004, the Township incurred expenditures in the General Fund which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Bike Path Fund: Capital outlay	\$ 250	\$ 12,118	\$ 11,868

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of March 31, 2004 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	<u>\$ 50</u>	Current Tax Collection Fund	<u>\$ 50</u>

NOTE 6 - CHANGES IN FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>Balance April 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance March 31, 2004</u>
Land and land improvement	\$ 18,754	\$ 12,118	\$ 0	\$ 30,872
Buildings	14,140	0	0	14,140
Equipment	437	0	0	437
Office furniture and equipment	<u>10,599</u>	<u>0</u>	<u>0</u>	<u>10,599</u>
	<u>\$ 43,930</u>	<u>\$ 12,118</u>	<u>\$ 0</u>	<u>\$ 56,048</u>

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 6 - CHANGES IN FIXED ASSETS (CONTINUED)

A summary of proprietary fund type property and plant at March 31, 2004 is as follows:

	<u>Water</u>
Property and plant	\$ 494,895
Less accumulated depreciation	<u>(35,637)</u>
	<u>\$ 459,258</u>

Depreciation is calculated using the straight-line basis at a rate of 2% per year with an estimated useful life of 50 years.

NOTE 7 - PENSION PLAN

The Township has a defined contribution pension plan with Manufacturer's Life effective 1991. All full-time employees are covered under the plan. Eligibility to become a participant is limited to Township board members. Vesting is 100% upon entering the plan. Each employee must contribute 6.0% of their gross earnings to the plan. The Township is required to contribute an amount equal to 6.0% of the employee's gross earnings. Plan participants may make voluntary after-tax contributions, through payroll withholding, in amounts ranging from 1% to 10% of compensation.

During the year, the Township's required and actual contributions amounted to \$2,118, which was 6.0% of its current-year covered payroll. Employee's contributions amounted to \$3,018. No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

NOTE 8 - LONG-TERM DEBT

Water Fund

Iosco County, Michigan Board of Public Works Contract

The Township entered into a joint water system agreement with the County of Iosco to finance the cost of providing water service to the Cedar Haven Subdivision neighborhood, located within Sections 34 and 35 of Alabaster Township. The Township's obligation for the total bond issue is \$550,000 with varying interest rates from 5.05% to 6.25%. The balance remaining at March 31, 2004 was \$475,000.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 8 - LONG-TERM DEBT (CONTINUED)

Iosco County, Michigan Board of Public Works Contract (Continued)

The most current estimate of the Township's share of principal and interest requirements for the years succeeding March 31, 2004 is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2005	\$ 50,787
2006	49,513
2007	48,231
2008	46,944
2009	45,656
2010 - 2014	222,321
2015 - 2019	190,838
2020 - 2021	<u>63,735</u>
	718,025
Less interest	<u>243,025</u>
Total	<u>\$ 475,000</u>

NOTE 9 - SEGMENT INFORMATION OF ENTERPRISE FUND

The Township maintains an Enterprise Fund which provides water services. Segment information for the year ended March 31, 2004 is as follows:

Operating revenue	\$ 1,108
Amortization expense	\$ 1,791
Depreciation expense	\$ 9,898
Operating loss	\$ (13,093)
Net loss	\$ (9,712)
Net working capital	\$ 152,451
Contracts payable	\$ 475,000
Total equity	\$ 552,595

NOTE 10 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of the insurance coverage in any of the past three years.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2004

NOTE 11 - RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

	<u>Water Fund</u>
Operating loss	\$ (13,093)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Amortization	1,791
Depreciation	<u>9,898</u>
Net cash used by operating activities	<u>\$ (1,404)</u>

NOTE 12 - NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in all prior years will be affected. The Township is required to implement this standard for the fiscal year ending March 31, 2005. The Township has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

NOTE 13 - TOTAL COLUMN ON COMBINED STATEMENTS

The total column on the combined statements is captioned Memorandum Only to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

OTHER DATA

REPORT ON OTHER DATA

May 27, 2004

Our audit was conducted for the purpose of forming an opinion on the March 31, 2004 general purpose financial statements taken as a whole. The combining and individual fund financial statements and schedules, EXHIBITS G through J, are presented for purposes of additional analysis and are not a required part of the 2004 general purpose financial statements of the Township of Alabaster, Iosco County, Michigan. The information has been subjected to the auditing procedures applied in the audit of the 2004 general purpose financial statements, and in our opinion, is fairly stated in all material respects in relation to the 2004 general purpose financial statements taken as a whole.

Stephenson, Grunth & Co., P.C.

TOWNSHIP OF ALABASTER
Iosco County, Michigan

ALL SPECIAL REVENUE FUNDS
 COMBINING BALANCE SHEET
March 31, 2004

	Municipal Streets Fund	Fire Fund	Cemetery Fund	Garbage Fund	Capital Improvement Fund	Bike Path Fund	Total
<u>ASSETS</u>							
Cash	\$ 215,423	\$ 104,467	\$ 942	\$ 78,970	\$ 671	\$ 115,957	\$ 516,430
Certificates of deposit	<u>60,405</u>	<u>27</u>	<u>1</u>	<u>17</u>	<u>1</u>	<u>0</u>	<u>60,451</u>
Total Assets	<u>\$ 275,828</u>	<u>\$ 104,494</u>	<u>\$ 943</u>	<u>\$ 78,987</u>	<u>\$ 672</u>	<u>\$ 115,957</u>	<u>\$ 576,881</u>
<u>LIABILITIES AND FUND EQUITY</u>							
<u>Liabilities</u>							
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,513	\$ 1,513
Deferred revenue	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>112,882</u>	<u>112,882</u>
Total liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>114,395</u>	<u>114,395</u>
<u>Fund Equity</u>							
Fund Balances:							
Unreserved:							
Undesignated	<u>275,828</u>	<u>104,494</u>	<u>943</u>	<u>78,987</u>	<u>672</u>	<u>1,562</u>	<u>462,486</u>
Total Liabilities and Fund Equity	<u>\$ 275,828</u>	<u>\$ 104,494</u>	<u>\$ 943</u>	<u>\$ 78,987</u>	<u>\$ 672</u>	<u>\$ 115,957</u>	<u>\$ 576,881</u>

TOWNSHIP OF ALABASTER
Iosco County, Michigan

ALL SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended March 31, 2004

	Municipal Streets Fund	Fire Fund	Cemetery Fund	Garbage Fund	Capital Improvement Fund	Bike Path Fund	Total
<u>Revenue</u>							
Taxes	\$ 51,371	\$ 47,812	\$ 0	\$ 47,812	\$ 0	\$ 0	\$ 146,995
State grants	0	0	0	0	0	12,118	12,118
Contributions	0	0	0	0	0	154	154
Sale of lots	0	0	250	0	0	0	250
Interest earned	3,936	544	15	360	10	153	5,018
Total revenue	<u>55,307</u>	<u>48,356</u>	<u>265</u>	<u>48,172</u>	<u>10</u>	<u>12,425</u>	<u>164,535</u>
<u>Expenditures</u>							
Current:							
Fire protection	0	41,903	0	0	0	0	41,903
Highways, streets and bridges	89,761	0	0	0	0	0	89,761
Sanitation	0	0	0	35,806	0	0	35,806
Miscellaneous	0	0	1,500	0	0	0	1,500
Capital outlay	0	0	0	0	0	12,118	12,118
Total expenditures	<u>89,761</u>	<u>41,903</u>	<u>1,500</u>	<u>35,806</u>	<u>0</u>	<u>12,118</u>	<u>181,088</u>
Excess of revenue over (under) expenditures	(34,454)	6,453	(1,235)	12,366	10	307	(16,553)
Fund balances - beginning of year	<u>310,282</u>	<u>98,041</u>	<u>2,178</u>	<u>66,621</u>	<u>662</u>	<u>1,255</u>	<u>479,039</u>
Fund balances - end of year	<u>\$ 275,828</u>	<u>\$ 104,494</u>	<u>\$ 943</u>	<u>\$ 78,987</u>	<u>\$ 672</u>	<u>\$ 1,562</u>	<u>\$ 462,486</u>

TOWNSHIP OF ALABASTER
Iosco County, Michigan

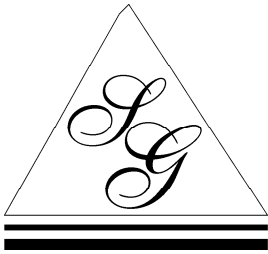
ALL TRUST AND AGENCY FUNDS
 COMBINING BALANCE SHEET
March 31, 2004

	<u>Current Tax Collection Fund</u>	<u>Trust and Agency Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ <u>50</u>	\$ <u>307</u>	\$ <u>357</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Due to other funds	\$ 50	\$ 0	\$ 50
Due to state	<u>0</u>	<u>307</u>	<u>307</u>
Total liabilities	50	307	357
<u>Fund Equity</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities and Fund Equity	\$ <u>50</u>	\$ <u>307</u>	\$ <u>357</u>

TOWNSHIP OF ALABASTER
Iosco County, Michigan

ALL TRUST AND AGENCY FUNDS
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended March 31, 2004

	Balance April 1, 2003	Additions	Deductions	Balance March 31, 2004
<u>Current Tax Collection Fund</u>				
Cash	\$ 7	\$ 1,211,938	\$ 1,211,895	\$ 50
Due to other funds	(7)	276,185	276,228	(50)
Due to county	0	414,246	414,246	0
Due to schools	0	520,739	520,739	0
Due to others	0	724	724	0
	<u>\$ 0</u>	<u>\$ 2,423,832</u>	<u>\$ 2,423,832</u>	<u>\$ 0</u>
<u>Trust and Agency Fund</u>				
Cash	\$ 358	\$ 10,120	\$ 10,171	\$ 307
Due to state	(358)	10,171	10,120	(307)
	<u>\$ 0</u>	<u>\$ 20,291</u>	<u>\$ 20,291</u>	<u>\$ 0</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

May 27, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Township Board
Township of Alabaster
Iosco County, Michigan

We have audited the general purpose financial statements of the Township of Alabaster as of and for the year ended March 31, 2004, and have issued our report thereon dated May 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

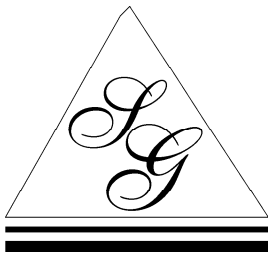
As part of obtaining reasonable assurance about whether the Township of Alabaster's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Township of Alabaster in a separate letter dated May 27, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Alabaster's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

May 27, 2004

Members of the Board
Township of Alabaster
Iosco County, Michigan

Dear Board Members:

We have audited the general purpose financial statements of the Township of Alabaster for the year ended March 31, 2004, and have issued our report thereon dated May 27, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated February 26, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the Township of Alabaster's internal control. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the Township of Alabaster's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Township of Alabaster are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Township of Alabaster during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Township of Alabaster's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Township of Alabaster, either individually or in the aggregate, indicate matters that could have a significant effect on the Township of Alabaster's financial reporting process.

Members of the Board
Township of Alabaster
May 27, 2004
Page Two

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Township of Alabaster's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Budget Control

We noted that the Township's Bike Path Fund included expenditures in one activity that exceeded the appropriated amount. We recommend that the Township Board continue to amend the budgets for all funds as needed and take into consideration year end accounts payable and recurring year end audit adjustments.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Township.

This information is intended solely for the use of management, Township Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gratch & Co., P.C.